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ABSTRACT

Intended to provide secondary students with information on the federal budget, this kit provides a teacher's guide, a test, a crossword puzzle, and a series of reproducible graphs and handouts focusing on budget deficits and the national debt. Study materials and graphics are based almost entirely on articles and graphics found in "U.S. News & World Report." The first set of graphics demonstrates the value of trillions in everyday terms, illustrates projected deficits through 1985, places the 925.5 billion dollar budget in perspective, and shows the relationship between government borrowing and rising interest costs. Subsequent graphics show spending trends with resulting deficits and the number of Americans who were predicted to benefit from federal spending in 1985. Articles reproduced on ditto masters present ideas that lawmakers such as Bob Dole (Kansas), Russell Long (Louisiana), Jim Jones (Oklahoma), Pete Domenici (New Mexico), and Barber Conable (New York), have for cutting the federal deficit. "Budget-Limit Bandwagon Picks Up Speed," a lesson designed as a reading and writing exercise, is provided for students of varying ability levels. Final materials include "Tidal Wave of Red Ink," which graphically examines deficits under presidential administrations from Truman to Reagan, and "Budget Deficit Needs a 'Quick-Fix--the Quicker the Better,'" a transcribed conversation with economist Eliot Janeway. (LH)

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FEDERAL BUDGET

U.S. NEWS & WORLD REPORT
Education Division

Today's Issues/Tomorrow's America
May/June 1984

SPENDING OUT OF CONTROL?

ED266998

U.S. DEPARTMENT OF EDUCATION
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Teacher's Guide

FEDERAL BUDGET: SPENDING OUT OF CONTROL?

OBJECTIVES

By the end of this unit, students should be able to:

1. Interpret charts, graphs and statistics related to budget deficits and the national debt.
2. Describe the relationship between budget deficits, inflation and high interest rates.
3. Evaluate the seriousness of large budget deficits.
4. Identify proposals for cutting budget deficits and the effects of such proposals on specific groups in the American population.
5. List arguments for and against a constitutional amendment to mandate balanced federal budgets.

VOCABULARY

Before students independently use this unit's materials, you may wish to review the meaning of the following:

appropriation	indexing
deficit	revenues
entitlement programs	surtax
fiscal	

Included in this kit, you will find:

TESTS

1. A True-False test (p. 1), which may be used as either a pre- or post-test.
2. The Deficit Puzzle (pp. 2-3). This crossword puzzle may be used either as a test of students' comprehension of the subject or as independent activity.

STUDY MATERIALS

1. **An Economy That Speaks in Trillions.** This series of graphics (p. 4) demonstrates the value of trillions in everyday terms.
2. **Heading for $2 Trillion** (p. 5). This *U.S.News & World Report* graph (Feb. 13, 1984) is accompanied by questions.
3. **Yawning Gap** (*U.S.News & World Report*, Feb. 13, 1984) illustrates projected deficits through 1985. Questions are provided to aid in students' interpretation (p. 6).
4. **$925.5 Billion Budget in Perspective** (*U.S.News & World Report*, Feb. 13, 1984) appears on p. 7 along with related questions.
5. **As Uncle Sam Borrows New Billions . . . Interest Costs Soar** (p. 8). These *U.S.News* graphics (Feb. 13, 1984) are followed by questions.
6. **Where Washington Raises Money** (p. 9) defines income sources for 1983 through 1985, and spending trends with resulting deficits. This chart appeared in the Feb. 13, 1984, issue of *U.S.News & World Report*.
7. **Something for Nearly Everyone** (*U.S.News & World Report*, Feb. 13, 1984) is a graphic breakdown of the number of Americans who will benefit from federal spending in 1985. The chart is accompanied by questions (p. 10).
8. **Do $200 Billion Deficits Really Matter?** This excerpt from *U.S.News & World Report* (Oct. 17, 1983) appears on pp. 11-12.
9. **Cut the Deficit? Lawmakers Have Some Ideas** (pp. 13-14), an excerpt from *U.S.News & World Report* (Feb. 20, 1984), is provided on ditto masters.
10. **Budget-Limit Bandwagon Picks Up Speed**. This *U.S.News & World Report* excerpt (Aug. 9, 1982) is designed as a reading/writing exercise. You are provided with:
    - The article reprinted on ditto masters for use by early-secondary/below-grade-level students (pp. 15-17). Synonyms in brackets follow words students may find difficult, and the text is interrupted periodically with questions for students. The symbol 🖃🖃 denotes this level.
    - The article reprinted on ditto masters (pp. 18-19) for use by both average and above-average students. The symbol 🖃 denotes this level.
    - Questions for average students (p. 20) are identified by the symbol 🖃.
    - Questions labeled **For Further Discussion/Involvement** (bottom of p. 20) may be appropriate for students who are above grade level.
11. **Tidal Wave of Red Ink** (p. 21) examines deficits under presidential administrations from Truman to Reagan. This graphic originally appeared in *U.S.News & World Report*, Feb. 13, 1984.
12. **Budget Deficit Needs a "Quick-Fix—the Quicker the Better."** This conversation with Eliot Janeway (*U.S.News & World Report*, Feb. 6, 1984) is reprinted on the back cover of this folder for your information.

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True-False Test

Name _____

DIRECTIONS: In the space to the left of each statement, write a "T" if the statement is true or an "F" if the statement is false.

_____ 1. The total public debt of the U.S. is estimated to reach 6 trillion dollars by the end of 1986.

_____ 2. The total U.S. public debt is expected to reach over $8,000 for every man, woman and child in America.

_____ 3. A deficit occurs when revenues exceed expenditures.

_____ 4. Budget deficits are expected to reach or exceed 500 billion dollars in both 1984 and 1985.

_____ 5. The federal government will spend nearly $4,000 on every man, woman and child in the U.S. in 1985.

_____ 6. Federal outlays will make up almost one quarter of our GNP in 1985.

_____ 7. The federal government raises funds to pay for its deficit by borrowing through credit markets.

_____ 8. Interest paid on the public debt decreases as deficits increase.

_____ 9. Concern about rising deficits has prompted many groups who receive funds from the U.S. government to volunteer for cuts in income.

_____ 10. Recipients of Social Security make up one of the smallest groups that receive funds from the U.S. government.

_____ 11. Many economists believe that large federal deficits fuel inflation.

_____ 12. The Reagan administration's deficits are smaller than those of any President since Harry Truman.

_____ 13. President Reagan has followed a policy of simultaneously raising deficits and cutting taxes.

_____ 14. Many economists believe that large federal deficits interfere with private investments and limit capital formation.

_____ 15. President Reagan's budgets have generally increased payments for entitlement and social programs and have cut funds for defense.

_____ 16. A proposed constitutional amendment to require a balanced budget won in the House of Representatives but lost in the Senate in the early 1980s.

_____ 17. Three-fourths of the states would have to ratify a balanced-budget amendment in order to amend the Constitution.

_____ 18. Backers of a balanced-budget amendment generally put the blame for high deficits on Presidents rather than on lawmakers.

_____ 19. Opponents of a balanced-budget amendment include most conservatives and businesses.

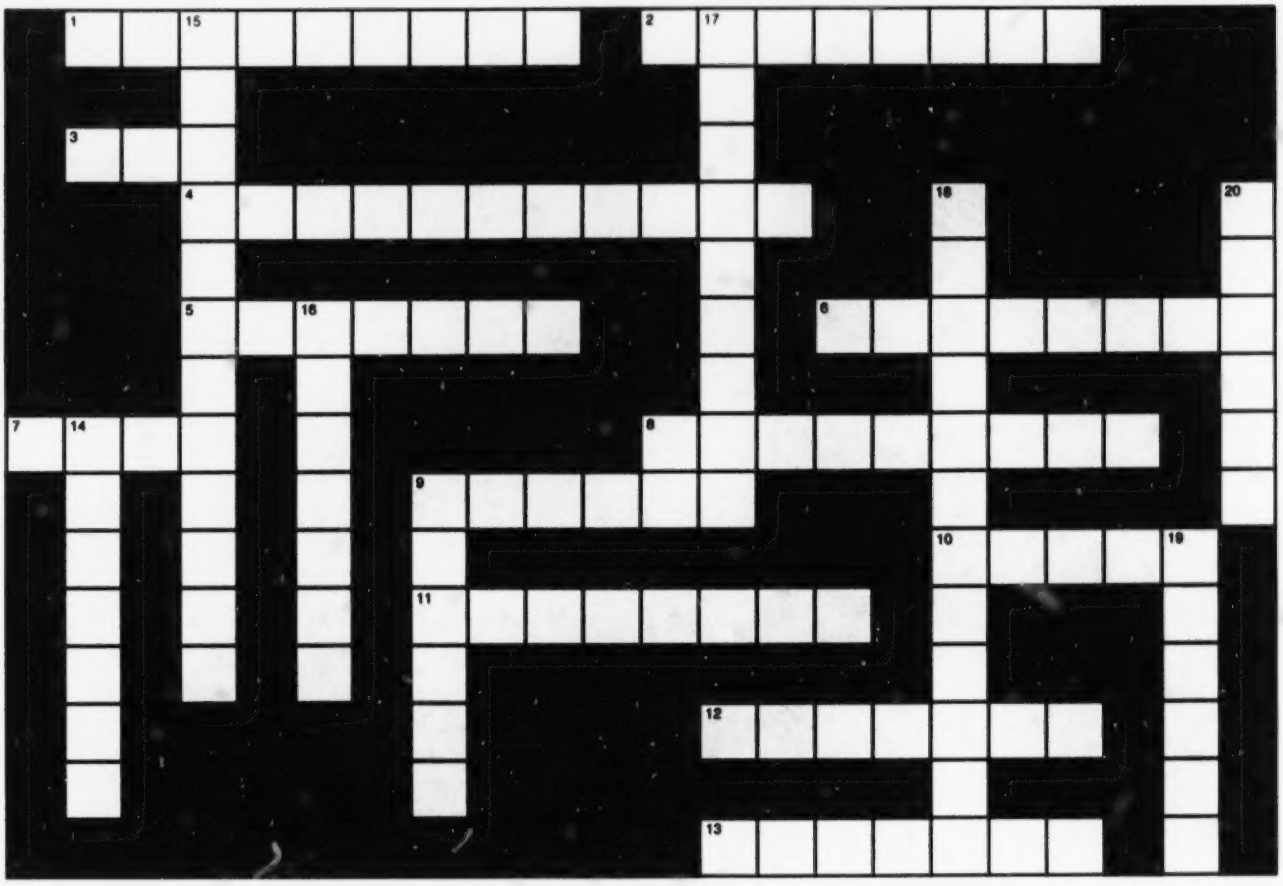
_____ 20. Many economists believe Congress could get around a balanced-budget amendment by tinkering with the conflicting economic forecasting upon which the budget is based.

ANSWER KEY/TRUE-FALSE

1. F	6. T	11. T	16. F
2. T	7. T	12. F	17. T
3. F	8. F	13. T	18. F
4. F	9. F	14. T	19. F
5. T	10. F	15. F	20. T

THE DEFICIT PUZZLE

DIRECTIONS: Fill in the sentences on page 3 to complete this crossword puzzle.



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CROSSWORD ANSWER KEY

ACROSS

1. President
2. balanced
3. gap
4. entitlement
5. deficit
6. Congress
7. debt
8. inflation
9. budget
10. taxes
11. revenues
12. billion
13. defense

DOWN

9. borrow
14. economy
15. expenditures
16. federal
17. amendment
18. Constitution
19. social
20. fiscal

FEDERAL BUDGET: SPENDING OUT OF CONTROL?

DIRECTIONS: Use the following clues to complete the crossword puzzle:

ACROSS

1. The _____ proposes the annual budget to Congress.
2. The U.S. budget has not been _____ since 1969.
3. A deficit occurs when there is a _____ between revenues and expenditures.
4. _____ programs, like Social Security and medicaid, cost more and more each year.
5. The budget _____ has been larger under Reagan than under any other President.
6. Budget resolutions enable _____ to set budget goals.
7. The U.S. government is in deep _____ to its lenders.
8. Many experts believe that large budget deficits fuel _____.
9. Many experts disagree about the need for a balanced _____.
10. Many Democrats have proposed that Reagan raise _____ to help balance the budget.
11. Government income is called _____.
12. The budget deficit in 1983 was more than 200 _____ dollars.
13. President Reagan refused to cut the _____ budget.

DOWN

9. A large budget deficit means that it will be more difficult for private citizens to _____ money.
14. The recovery of the U.S. _____ may be threatened by large budget deficits.
15. Federal _____ on defense programs have increased under the Reagan administration.
16. The _____ budget is larger than it has ever been before.
17. Many Americans believe an _____ should be passed to require a balanced budget.
18. At this time, the _____ does not require that the federal budget must be balanced.
19. President Reagan has proposed that the largest budget cuts come from _____ programs.
20. The _____ year begins on October 1.

An Economy That Speaks In Trillions

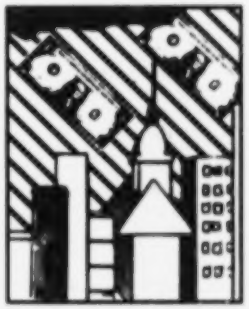
This nation's economic system is climbing into a dizzying range of big numbers that few individuals are likely to encounter in their daily lives. But statistics that go into trillions boggle the mind and defy most conventional measures. For an idea of how these astronomical numbers can be translated into everyday terms—

1 Trillion Dollars
The Federal Government's Debt

If gathered in a single stack of $1 bills, would reach farther than 67,000 miles into the sky—more than one fourth the distance to the moon.

Would buy 172.8 million two-door subcompact cars costing $5,788—enough for every adult American, with 3 million cars left over.

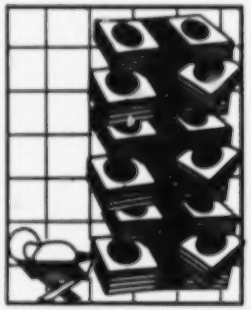
2 Trillion Dollars
Total After-Tax Personal Income



Would rain a $1 bill on each square foot of the city of Boston every 10 seconds for 4 hours and 20 minutes.

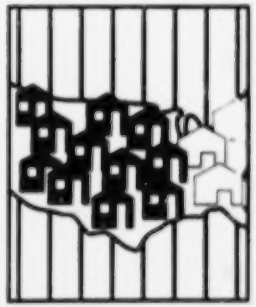
Would buy a $444 color-TV set for each of this planet's 4.5 billion people.

3 Trillion Dollars
Total National Output



If given away at a rate of 4 million dollars a day since the birth of Christ, would not yet all be gone.

Would buy more than three fourths of the nation's 54 million single-family houses, which now are worth an average of $79,000 apiece.



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FEDERAL BUDGET: SPENDING OUT OF CONTROL?

Answer these questions on a separate sheet of paper:

1. What kind of graph is this? (circle one)
   bar pie line
2. Describe what this graph illustrates.
3. What time period is illustrated in this graph?
4. From which agency did **U.S.News** obtain this data?
5. By the end of 1984, the total public debt of the U.S. was estimated at how much? What is the projected total at the end of 1986?
6. How large was the total public debt in 1960? By how many dollars has the debt grown since 1960?
7. If the U.S. government were to bill you for your "share" of the public debt, how much would you owe? How much would you owe at the end of 1986?

Heading For $2 Trillion
Total Public Debt
(end of year)
$2.0 tril.
$1.6 tril.
$1.5 tril.
$1.0 tril.
$500 bil.
$284 bil.
1960
65
70
75
80
86
At that rate: Uncle Sam's IOU's will total $6,768 for each man, woman and child at the end of this year and some $8,300 at the end of 1986.
Note: Years end June 30 through 1976, September 30 thereafter
USN&WR—Basic data: U.S. Office of Management and Budget

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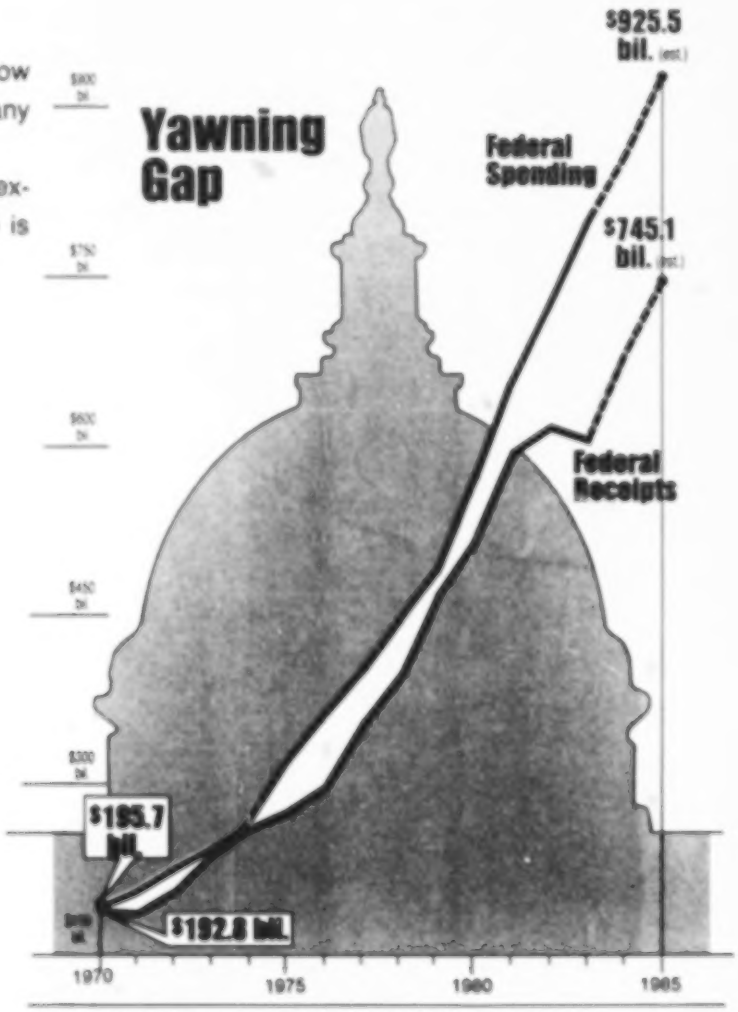
FEDERAL BUDGET: SPENDING OUT OF CONTROL?

Answer the following questions on a separate sheet of paper:

1. What do the numbers listed vertically on the left stand for?
2. For what years are data provided in the graphic?
3. Which line shows federal spending?
   (circle one) top bottom
   What does the other line show?
4. How large was federal spending in 1970? How large were federal receipts in 1970? By how many dollars did spending exceed receipts in 1970?
5. How many dollars is the federal government expected to spend in 1985? Receive? How large is the gap between the two?



Both this year and next, deficits will reach or exceed 180 billion dollars, more than Uncle Sam's income in any year before 1969.

Note: Years end June 30 through 1976, September 30 thereafter.
USN&WR—Basic data: U.S. Office of Management and Budget

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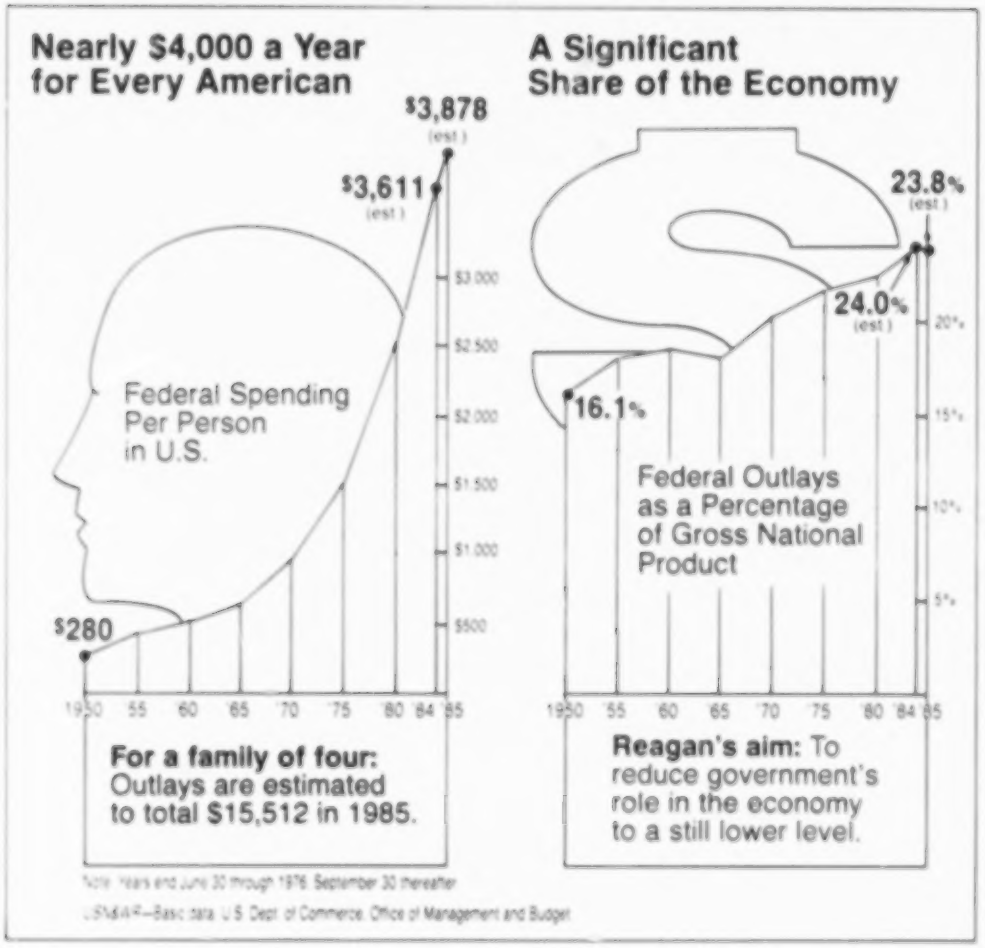
$925.5 Billion Budget in Perspective


Nearly $4,000 a Year for Every American
$3,878 (est.)
$3,611 (est.)
$280
Federal Spending Per Person in U.S.
$3,000
$2,500
$2,000
$1,500
$1,000
$500
1950 55 60 65 70 75 80 84 85
For a family of four: Outlays are estimated to total $15,512 in 1985.
A Significant Share of the Economy
23.8% (est.)
24.0% (est.)
16.1%
Federal Outlays as a Percentage of Gross National Product
20%
15%
10%
5%
1950 55 60 65 70 75 80 84 85
Reagan's aim: To reduce government's role in the economy to a still lower level.
Note: Years end June 30 through 1976, September 30 thereafter
USN&WR—Basic data: U.S. Dept. of Commerce, Office of Management and Budget

1. Describe what the graph on the left illustrates.
2. How many dollars did the federal government spend per person in 1950? How much is it expected to spend per person in 1985?
3. How much would the federal government have to collect from each family of four to cover its 1985 expenditures?
4. Describe what the graph on the right illustrates.
5. What percentage of our GNP will federal outlays make up in 1985?

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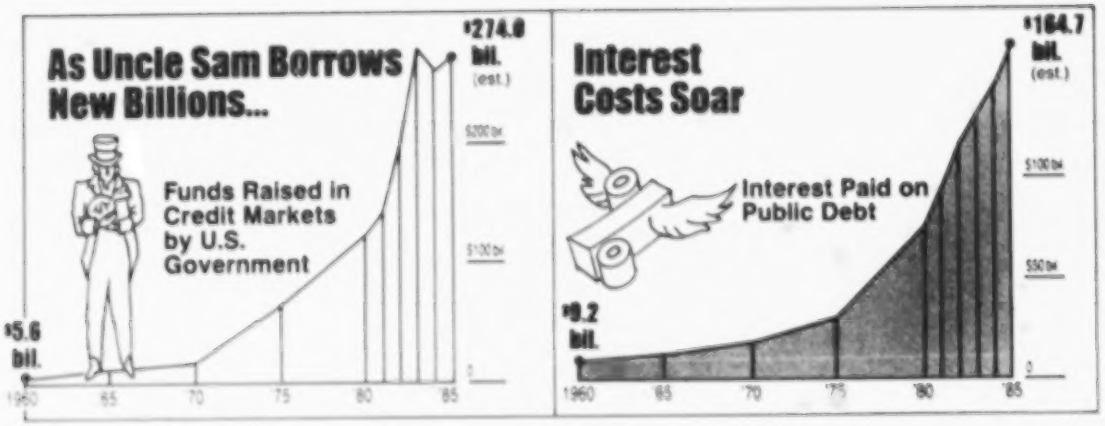
FEDERAL BUDGET: SPENDING OUT OF CONTROL?



By 1985, federal interest outlays will eat up $690 a year for each person in the country, equal to 4.2 percent of the nation's production.

Note: Years end June 30 through 1976, September 30 thereafter. Funds raised include borrowings for guaranteed loans and government-sponsored enterprise.

LISTENER—Basic data: U.S. Dept. of the Treasury, Office of Management and Budget

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1. From what markets does the U.S. government borrow money? How could you lend our government money?
2. How much did the federal government borrow through credit markets in 1960? How much is it expected to borrow in 1985?
3. How much interest did the federal government have to pay on the public debt in 1960? About how much will it have to pay in interest costs in 1985?
4. Federal interest payments will cost how much per person in 1985?

FEDERAL BUDGET: SPENDING OUT OF CONTROL?

Where Washington Raises Money . . .

	Last Year (ended Sept. 30, 1983) Actual	This Year (ends Sept. 30, 1984) Estimated	Next Year (ends Sept. 30, 1985) Estimated
INCOME			
Taxes on individual income	$288.9 bil.	$293.3 bil.	$328.4 bil.
Social Security taxes	$183.0 bil.	$208.5 bil.	$236.7 bil.
Taxes on corporate profits	$ 37.0 bil.	$ 66.6 bil.	$ 76.5 bil.
Excise taxes	$ 22.3 bil.	$ 28.4 bil.	$ 30.1 bil.
Crude-oil excise tax	$ 13.0 bil.	$ 9.8 bil.	$ 8.3 bil.
Unemployment-insurance taxes	$ 18.8 bil.	$ 23.3 bil.	$ 25.2 bil.
Estate and gift taxes	$ 6.1 bil.	$ 5.9 bil.	$ 5.6 bil.
All other revenue	$ 31.5 bil.	$ 34.3 bil.	$ 34.3 bil.
Total income	**$600.6 bil.**	**$670.1 bil.**	**$745.1 bil.**

And the Ways It Is Spent

OUTGO			
Department of Defense	$205.0 bil.	$231.0 bil.	$264.4 bil.
Social Security benefits	$170.7 bil.	$179.2 bil.	$190.6 bil.
Interest on public debt	$128.6 bil.	$149.5 bil.	$164.7 bil.
Medicare, other health programs	$ 81.2 bil.	$ 91.7 bil.	$102.6 bil.
Public assistance, food stamps, other aid	$ 39.0 bil.	$ 38.1 bil.	$ 37.7 bil.
Education, manpower, social services	$ 26.6 bil.	$ 28.7 bil.	$ 27.9 bil.
Aid to veterans	$ 24.8 bil.	$ 25.8 bil.	$ 26.7 bil.
Aid to transportation	$ 21.4 bil.	$ 26.1 bil.	$ 27.1 bil.
Civil-service retirement	$ 21.0 bil.	$ 22.0 bil.	$ 23.2 bil.
Unemployment compensation	$ 31.5 bil.	$ 20.7 bil.	$ 20.1 bil.
International affairs, economic and military aid	$ 9.0 bil.	$ 13.5 bil.	$ 17.5 bil.
Energy	$ 4.0 bil.	$ 3.5 bil.	$ 3.1 bil.
Aid to communities, regional development	$ 6.9 bil.	$ 7.6 bil.	$ 7.6 bil.
General-revenue sharing	$ 4.6 bil.	$ 4.6 bil.	$ 4.6 bil.
Rivers, dams, natural resources	$ 8.4 bil.	$ 8.4 bil.	$ 7.2 bil.
Science, space, technology	$ 7.7 bil.	$ 8.3 bil.	$ 8.8 bil.
Pollution control	$ 4.3 bil.	$ 3.9 bil.	$ 4.2 bil.
Aid to agriculture	$ 22.2 bil.	$ 10.7 bil.	$ 14.3 bil.
Administration of justice	$ 5.1 bil.	$ 6.0 bil.	$ 6.1 bil.
Payment to the Postal Service	$ 0.8 bil.	$ 0.9 bil.	$ 0.7 bil.
Rents and royalties on outer continental shelf	−$ 10.5 bil.	−$ 8.7 bil.	−$ 7.4 bil.
Net interagency deductions and other spending	−$ 16.3 bil.	−$ 17.7 bil.	−$ 26.2 bil.
Total outgo	**$796.0 bil.**	**$853.8 bil.**	**$925.5 bil.**
DEFICIT	**−$195.4 bil.**	**−$183.7 bil.**	**−$180.4 bil.**

USNWR—Basic data: U.S. Office of Management and Budget

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Something for Nearly Everyone

Despite President Reagan's attempt to trim the federal government, millions upon millions still benefit directly from U.S. spending. Here are some who will gain from the President's 1985 budget—

People collecting Social Security	36,896,000
People under medicare	30,213,000
Children in school-lunch programs	24,600,000
Medicaid beneficiaries	22,900,000
People receiving food stamps	20,030,000
Members of families receiving Aid to Families With Dependent Children	10,354,000
Veterans or survivors collecting pensions or compensation	4,148,000
Households in subsidized housing	4,018,000
Needy, aged, blind and disabled	3,716,000
Government workers	2,800,000
Workers on unemployment compensation (weekly average)	2,800,000
Military personnel	2,200,000
Civil-service retirees	2,032,000
Military retirees	1,462,000
Railroad-retirement beneficiaries	951,000
Disabled coal miners	398,000

On top of that: Millions are helped by farm price supports, college-student loans, small-business loans and veterans' medical care, among other programs.

Note: Figures cannot add to a total because many people receive government help under more than one program.

1. What does this chart illustrate?
2. How many Americans will benefit from federal spending on Social Security in 1985? Medicare? Medicaid? School-lunch programs?
3. List kinds of federal spending that are primarily for:
   A. senior citizens B. school-age people C. poor people D. government employes (including military)
4. How is each of the above groups likely to react to proposed cuts in federal spending for their programs? How might this explain why attempts to trim the federal budget have met with little success?

FEDERAL BUDGET: SPENDING OUT OF CONTROL?

Do $200 Billion Deficits Really Matter?

It's a dispute that is fast becoming the key issue in shaping Uncle Sam's economic policy. How dangerous is the flood of red ink the government is running?

The battle over 200-billion-dollar-a-year deficits already has split the Reagan administration. Martin Feldstein, chairman of the Council of Economic Advisers, warns that the deficits help cause high interest rates and threaten to slow the recovery. Treasury Secretary Donald Regan says that isn't necessarily so.

What top economists and lawmakers say—

No "Danger" of Aborting Recovery

Manuel Johnson
Assistant Secretary of the Treasury for Economic Policy

Our studies at the Treasury fail to confirm a strong systematic relationship between changes in deficits and interest rates. I'm not saying there is absolutely no connection, but our studies yield ambiguous results. Clearly, in many periods of recession, they show interest rates falling when deficits are rising. But even when business-cycle factors are adjusted for, statistical research fails to establish a consistent positive relationship.

Obviously, if you run excessive deficits indefinitely, intuition tells you that would ultimately put upward pressure on interest rates. Yet its magnitude is debatable. One study concludes that every 10 percent increase in the total public debt held by the private sector—or a rise of about 100 billion dollars nowadays—pushes long-term interest rates up by an average of only two tenths of 1 percent.

Therefore, even if you accept the findings of the studies that demonstrate an impact of deficits on interest rates, I don't think there's any danger of the recovery being aborted by the current 200-billion-dollar deficits. The deficit is a normal response to the recession we went through in 1981-82. As the recovery continues, the deficit will fall as the Treasury gains revenues and government spending declines.

On the other hand, many studies do show a systematic link between federal spending and high interest rates. Because government pre-empts available resources for its programs, expanding federal spending tends to push prices and interest rates up, thus diverting funds from private consumption and investment.

Raising taxes also takes funds out of private hands, just as government borrowing does. That's why increasing taxes substantially, especially now when the recovery is young, would be a misguided policy that might well produce unwanted results. Rather, to deal with the deficits, we ought to rely on the one policy that, on the evidence from the professional literature, we know will moderate interest rates and improve the economy—we should cut federal spending.

"We Could Be Headed For Disaster"

Representative James Jones
Democrat of Oklahoma

Persistent high deficits really do matter. The Treasury studies that say there is no cause-and-effect relationship between high deficits and high interest rates are generally recognized as flawed because they don't relate the level of deficits to the supply of available capital.

First, as long as we as a nation continue to soak up more than three fourths of total net private savings to pay for the deficits, we are shortchanging what should be going into capital formation and private investment. We cannot sustain economic competitiveness and growth that way.

Second, as the recovery continues, the growing private need for credit to finance expansion will clash with the federal borrowing requirement. That will push interest rates up. When? Probably between mid-1984 and mid-1985.

We can't wait until after the November, 1984, election to deal with the deficits. By then it may be too late. Peter Grace, chairman of the President's Survey on Cost Control, says such a delay will add 200 billion dollars to the problem.

We must act now on the deficits in a fair way. We must cut the growth of spending for entitlements and defense. Then we will need to raise some revenues,

continued on next page

Do $200 Billion Deficits Really Matter?
[continued from preceding page]

probably by limiting the indexation of the tax code against inflation and by adopting President Reagan's proposed temporary 5 percent income-tax surcharge.

Unless we do something soon, we could be headed for disaster. By that I mean a repeat of the 1981-82 recession.

"Precious Little for Private Borrowers"

Paul McCracken
Professor of Business, University of Michigan

Saying that deficits don't cause rising interest rates is like saying that hospitals do cause ill health. The logic is the same. People confined to hospitals are not as healthy as those outside. That's a fact, but that doesn't mean hospitals cause poor health.

Interest rates tend to be low when deficits are high. That's a fact, but that doesn't mean deficits cause low interest rates. All that correlation tells you is that interest rates tend to go down during recessions, when deficits tend to expand because federal receipts fall off and spending increases.

To see the true effect of big deficits—and by that I mean a string of them, not just one or two in recession years—you must look to the government's claim on available credit. As recently as the decade of the 1970s, the Treasury was borrowing about one fifth of the credit supply. Now its claim is up to about 40 percent. With the projected deficits, the Treasury will be absorbing more than half of all available credit before long. Add in the credit needs of government-sponsored agencies, and the figure could rise well above 60 percent.

That leaves precious little for private borrowers and puts upward pressure on interest rates. I don't buy the argument that rising revenues from a maturing recovery will solve our deficit problem. A hard-core deficit of at least 100 billion dollars a year will remain even if Treasury receipts do improve.

Fundamental budget therapy is needed. Something will have to be done both to cut spending further and to raise more money from taxes. The nation cannot afford to have the White House and the Congress crouching behind ramparts glaring at each other.

Waiting until 1985 to solve the budget problem is a very high-risk strategy.

"It's Congress's Turn" to Cut Costs

John Rutledge
President, Claremont Economics Institute

I'm in the middle. Deficits do contribute to higher interest rates, but the question is how much. We in this organization figure that every 100 billion dollars of increased federal debt raises interest rates by about six tenths of 1 percent. That's small.

But that does not mean that deficits are unimportant. By pre-empting the pool of credit available to private investors, they are a cancer on capital formation. Deficits, therefore, have a crippling effect on healthy, long-term economic growth, which, after all, should be our overriding objective.

If that, indeed, is our goal, then we should be careful about how we go about reducing the deficits. A lot of politicians are using the big deficits as an excuse for wanting to raise taxes. In effect, they say that because deficits cause high interest rates, which, in turn, prevent the economy from growing, we need to raise taxes to sustain the recovery. That's an absurd argument.

All that would do is put more money in the hands of the guys who love to spend it. Their motives are not snow-white. The fact is that runaway spending, not too little taxes, is the reason we have these big deficits.

Sooner or later we must bring spending under control. Politically, the checkreins are beginning to bite on Congress's profligacy.

The easy way to attack the deficits is to give our representatives more money to spend. The tough way is to tell them to start spending less. Consumers and businesses have had to cut costs severely over the past three years. Now, I say, it's Congress's turn. □

FEDERAL BUDGET: SPENDING OUT OF CONTROL?

Cut the Deficit? Lawmakers Have Some Ideas

Cut "Agriculture, Defense, Medicare and Medicaid"

Bob Dole (R-Kans.),
Chairman, Senate Finance Committee

While I don't believe we're going to deal with the deficit in a major way in 1984, we should be looking at a reduction of at least 100 billion dollars—split evenly between lower spending and higher revenues—over the next three years. We're not going to change indexing of income taxes, which goes into effect next year. We're not going to change the third year of the tax cut. But there are a lot of things we can do with bipartisan support.

We can start with agriculture. The costs of that program have gone up and up. Just by reducing target prices of farm commodities for the next couple of years, we would save a couple of billion dollars.

We're going to make reductions in the administration's defense-spending request. The President asked for a 13 percent increase; Treasury Secretary Regan says it is negotiable.

We can look at some phases of medicare and medicaid. If you just froze physicians' fees under those programs, you'd get a pretty fast buildup of savings. The Treasury Department already has a list of tax loopholes that should be closed. That's 13 to 18 billion dollars right there. On the Senate floor, we have another 21 billion in revenue proposals—public-property leasing and things of that kind. So, you can get up to 30 or 40 billion in revenues pretty quickly.

The big action comes in 1985. One way to get more revenues is to broaden the base of the tax code and flatten out more of the loopholes. When you do that, you step on some toes. So it will not be easy.

"Reduce Everything 2 or 3 Percent"

Russell Long (La.),
Ranking Democrat, Senate Finance Committee

The only way to get the deficit under control is to go after it at both ends: Cut spending and do more taxing—and do it evenly.

We should think in terms of an across-the-board cut—reduce everything 2 percent or 3 percent, as much as we think we can. That includes some reductions in the President's military budget, although we will wind up with a net increase in defense spending. Also, there will have to be cuts in medicare, medicaid and social-welfare programs generally.

On taxes, most of us would settle for almost anything that is broadly based, where everybody would share the burden. It could be a modest increase in the income tax. Or, we could call off part of tax indexing—designed to keep people from being pushed by inflation into higher tax brackets—by saying that you would not receive the benefit of indexing for the first three points of inflation. We also should consider taxes on consumption—an energy tax, for example, not just on gasoline but on all energy.

While I don't believe Congress ever would give the President the power to veto individual items in spending bills, he should be given authority to prevent spending from exceeding the amounts that Congress approves in its budget resolution. I joined in such a proposal last year. We would say that, on a quarterly basis, if spending exceeds the amounts that Congress has voted, the President must make reductions—but he could not cut any item by more than 20 percent. We wouldn't just give him the authority; we'd require it.

"Adopt a Pay-As-You-Go Approach for Services"

Jim Jones (D-Okla.),
Chairman, House Budget Committee

To keep the recovery going, we need to get deficits on a downward path now, starting with a minimum down payment of 150 billion dollars spread over three years, equally divided between spending restraint and revenue increases. I would begin by limiting the growth of military expenditures to 4 percent, adjusted for inflation. That is greater than our commitment to NATO; it is less than the administration is asking for.

I would limit cost-of-living increases on entitlement programs that are not based on need—pensions and some health benefits—to 2 percent less than the inflation rate. So, those who receive these benefits would have to protect themselves against inflation for the first 2 percent. I would also apply that limit to

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Cut the Deficit? Lawmakers Have Some Ideas
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indexing of income-tax rates. Those actions alone would cut the deficit 178 billion dollars in five years.

We have to adopt a pay-as-you-go approach for whatever services we demand from our government. In the short run, I would adopt what the President proposed last year: A temporary surtax, lasting maybe three years. I would say, "O.K. We're having to spend more on the military. We're going to pay for it with this surtax." In the longer term, we must deal with basic tax reform that more equitably spreads the tax burden among all taxpayers. Also, we will need basic cost containment and reform in health care. But we can't solve those issues in an election year.

Congress Could Cut Deficit By 130 Billion "Right Now"

Pete Domenici (R-N.M.),
Chairman, Senate Budget Committee

We will not get rid of the deficit overnight, but it is absolutely imperative that we begin to deal with it. I would go—right now—for a deficit reduction of somewhere between 100 and 140 billion dollars over 3½ years.

A bill pending in the Senate would give us 28 billion—about 14 billion by deferring cost-of-living increases on federal pensions and other programs, and another 14 billion by closing various tax loopholes. I would reduce real growth in defense spending to about 5 percent for three years—saving 35 to 40 billion. We could save a couple of billion in medicare, basically by reducing costs, not benefits. I would find some additional taxes—extend the telephone tax, close some additional loopholes—giving us a package pretty close to 130 billion. That would be a serious installment on the deficit.

Then, you have to be honest with the American people and tell them you need another five-year plan, starting in 1985, that requires fundamental changes in such areas as military procurement, non-means-tested entitlement programs and tax reform. We might look at a flat-rate tax or phase in the indexation of income-tax rates for inflation over five or six years. We could consider a surtax on higher personal incomes or on corporate incomes, or—for the first time in our history—some kind of consumption tax. These would be dramatic changes that surely can't be done overnight.

"We Can't Buy Everything Admirals, Generals Want"

Barber Conable (N.Y.),
Ranking Republican,
House Ways and Means Committee

We can handle isolated deficits. The biggest problem is in the years beyond 1985, the necessity for cranking into the system things that will not cause deficits to continue to grow. Defense spending must be stretched out. I don't want to give up our long-term defense goals, but we can't buy everything the admirals and generals want right now. It would be bankrupting. There is no way that we can significantly reduce armament costs by cutting this year's appropriation. Nor are we likely to cut back on personnel costs. But we can deal with some peripheral issues, like the growth of retirement funds.

Action must be taken to slow the growth of medicare. It's growing at a rate of 15 percent a year. We should look at hospital-cost containment, at co-insurance deductibles. We're going to have to do it eventually. I would prefer not to wait until there is a crisis. In agriculture, we could save billions by reducing support prices. We now pay people not to produce milk. That is terribly expensive and, I think, scandalous.

While I do not think we should try to raise a lot of revenue this year, the ultimate solution is going to involve significant tax increases. I prefer a temporary surtax. But we must avoid the tendency to believe that raising taxes automatically deals with the deficit. It does not. It becomes the justification for more spending. I'm convinced we could raise an additional 3 to 4 billion dollars a year through tax compliance by simply hiring more clerical help to check tax forms at the Internal Revenue Service. □

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Budget-Limit Bandwagon Picks Up Speed

Congress is driving to pass a constitutional amendment to curb its own spending and taxing powers. Is it a needed step or an election-year hoax?

Only weeks after approving the largest deficit in U.S. history, Congress is finding almost irresistible appeal in a proposed constitutional amendment to require balanced budgets in the future.

Even staunch [firm] opponents were conceding, as the Senate neared a showdown vote in early August, that the measure is gaining momentum—perhaps enough for it to clear all the hurdles to ratification.

Most observers were predicting Senate passage by the required two-thirds vote and giving even odds that the House would approve the proposal later this year.

1. When was this article written? In what was Congress finding an almost irresistible appeal? This proposed constitutional amendment would prevent federal spending from being larger than what?

[A balanced-budget amendment was passed by the Senate but then lost in the House of Representatives. Article 5 of the U.S. Constitution provides that the Constitution can also be amended if two thirds of the states call for a convention for proposing an amendment, which then must be ratified by three fourths of the states. As of Feb. 8, 1984, 32 states had petitioned for a constitutional convention for the purpose of considering a balanced-budget amendment; two more states are needed in order to bring about such a convention.]

2. What happened to this amendment in the Senate? The House of Representatives? What two things would have to happen next in order to amend the Constitution to require a balanced budget?

Although condemned as unworkable by many economists and constitutional authorities, the amendment is being pushed hard by President Reagan as "a very practical way of getting us out of a situation that has seen us have 19 deficits in the last 20 years." Its adoption, he told a July 28 news conference, "would indicate that the government is really determined to end this kind of runaway spending and have some fiscal integrity [financial soundness] and common sense."

3. Members of what two groups view the proposed amendment as unworkable? What leader supported the proposed amendment in August, 1982?

The idea of restricting Congress's spending and taxing powers has been supported by conservatives and business groups for years but became widely favored only recently—after a succession of increasingly large deficits propelled the national debt past a trillion dollars.

4. What two congressional powers would be limited by a balanced-budget amendment?

5. What caused this proposed amendment to become widely favored?

Amendment backers, such as the National Tax-Limitation Committee and the National Taxpayers Union, say that Congress is to blame for allowing imbalanced budgets and claim that nothing short of a constitutional mandate will force lawmakers to change their ways.

Opponents, mostly liberals and labor groups, attack the proposal as a cynical [selfish] election-year hoax [trick]—"a fig leaf" to cover the embarrassment of a projected 1983 deficit of well over 100 billion dollars. It would not stop deficit spending and could inhibit Congress from acting decisively in times of

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Budget-Limit Bandwagon Picks Up Speed
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crisis, critics argue. "It could trigger a recession into a depression," claims Senator Thomas Eagleton (D-Mo.).

6. What argument does the National Taxpayers Union use to justify this amendment?
7. What kinds of groups are opposed to this amendment? List three arguments they use against a balanced-budget amendment to the Constitution.

Tied to taxes. The Senate's version of the amendment, which still is subject to last-minute change, would require Congress to enact each year a budget whose outlays [payments] did not exceed expected revenues [income]. Peacetime deficits would be allowed only with the consent of three fifths of both houses. Wartime deficits could be approved by a simple majority.

Congress could increase spending substantially from year to year—but only if it were willing to vote for higher taxes. Without such a vote, revenue increases would be held to a pace no greater than the nation's rate of economic growth.

8. The Senate's version of the amendment would require Congress to enact what kind of budget? How would it handle peacetime deficits? Wartime deficits?
9. According to the Senate version, what would Congress have to do if it wanted to increase spending?

Forcing Congress to vote explicitly [openly] for or against deficit spending or higher taxes will make the lawmakers more accountable for their fiscal [financial] decisions, amendment backers claim.

During Senate debate, Orrin Hatch (R-Utah) chided [scolded] his colleagues for submitting too readily to special-interest requests for money and for spending without regard to available revenues. The amendment, he said, would require members "to look over each spending proposal in light of the total pie of revenues that we will have."

10. According to balanced-budget amendment backers, what would make lawmakers more accountable?
11. Senator Hatch scolded his colleagues for doing what two things?

Supporters claim that the amendment leaves room for Congress to act speedily should any military or economic emergency arise. In such cases, they argue, a President should find it easy to muster the three-fifths majority needed to authorize a budget deficit.

12. According to those who support a balanced-budget amendment, how would Congress and the President handle emergencies?

Crucial or "clutter"? Opponents argue that the amendment would "clutter up" the Constitution with unproved economic theory. Economists, they note, disagree on the need for a balanced budget.

Critics also cite the dangers of locking into the Constitution a national policy that Congress will find extremely hard if not impossible to obey. Any serious attempt to achieve a balanced budget, they contend [argue], would force far deeper cuts in Social Security and other politically sensitive programs than Congress so far has shown any willingness to accept.

13. Opponents argue that a balanced-budget amendment would clutter the Constitution with what? Do all economists agree that a balanced budget is needed?
14. Why would Congress find it hard to obey an amendment that required a balanced budget?

Congress, many economists point out, could easily circumvent [get around] the amendment's intent by tinkering with the conflicting, often inaccurate

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What Proposed Amendment Requires

The text of the proposed constitutional amendment to balance the budget:

Section 1. Prior to each fiscal year, the Congress shall adopt a statement of receipts and outlays for that year in which total outlays are no greater than total receipts. The Congress may amend such statement provided revised outlays are no greater than revised receipts. Whenever three fifths of the whole number of both houses shall deem it necessary, Congress in such statement may provide for a specific excess of outlays over receipts by a vote directed solely to that subject. The Congress and the President shall, pursuant to legislation or through exercise of their powers under the first and second articles, ensure that actual outlays do not exceed the outlays set forth in such statement.

Section 2. Total receipts for any fiscal year set forth in the statement adopted pursuant to this article shall not increase by a rate greater than the rate of increase in national income in the year or years ending not less than six months nor more than 12 months before such fiscal year, unless a majority of the whole number of both Houses of Congress shall have passed a bill directed solely to approving specific additional receipts and such bill has become law.

Section 3. The Congress may waive the provisions of this article for any fiscal year in which a declaration of war is in effect.

Section 4. Total receipts shall include all receipts of the United States except those derived from borrowing and total outlays shall include all outlays of the United States except those for repayment of debt principal.

Section 5. The Congress shall enforce and implement this article by appropriate legislation.

Section 6. This article shall take effect for the second fiscal year beginning after its ratification.

Budget-Limit Bandwagon Picks Up Speed

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economic forecasting [predictions] upon which the budget is based. □

15. In what way could Congress get around an amendment that required a balanced budget?

16. In your opinion, should the Constitution be amended to require a balanced budget? Explain your answer.

By COURTNEY R. SHELDON

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FEDERAL BUDGET: SPENDING OUT OF CONTROL?

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Budget-Limit Bandwagon Picks Up Speed
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By COURTNEY R. SHELDON

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Questions to Accompany *Budget-Limit Bandwagon Picks Up Speed*

DIRECTIONS: Answer the following questions in your own words on a separate sheet of paper.

1. Explain what the proposed amendment to the Constitution would do.
2. Describe what happened to this amendment in Congress after this article was written.
3. Draw a chart to illustrate the process states are now using in their attempt to amend the Constitution; show what will have to happen if they are to succeed.
4. Develop a hypothesis to explain why conservatives and business groups support a balanced-budget amendment.
5. Develop a hypothesis to explain why liberals and labor groups oppose a balanced-budget amendment.
6. What dangers do opponents see in a balanced-budget amendment? What dangers do supporters see in continuing large budget deficits?
7. Use data in this article to explain possible reasons why this amendment was not passed by the House of Representatives.
8. Create a chart in which you list pros and cons of a balanced-budget amendment that are identified in this article. Add any arguments of your own to these lists.
9. In your opinion, should the Constitution be amended to require a balanced budget? Explain your view in a brief essay.
10. Does this article have any apparent point of view? If so, describe it.

FOR FURTHER DISCUSSION/INVOLVEMENT

1. Assume that you are a labor-union leader. Write a speech that you might deliver to union members explaining why the Constitution should not be amended to require a balanced budget.
2. Assume that you are a conservative business leader. Write an editorial explaining why you support a balanced-budget amendment.
3. List positive and negative consequences that could follow ratification of a balanced-budget amendment.
4. Develop a hypothesis to explain why President Reagan's budgets have not been balanced, in spite of his 1982 support for a balanced-budget amendment.
5. Assume that you are Governor—running for re-election—in your state. Decide if you will support a balanced-budget amendment, and write the section of your platform that states your position.

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FEDERAL BUDGET: SPENDING OUT OF CONTROL?

Tidal Wave Of Red Ink

PICTOGRAM

Harry Truman

Dwight Eisenhower

John Kennedy

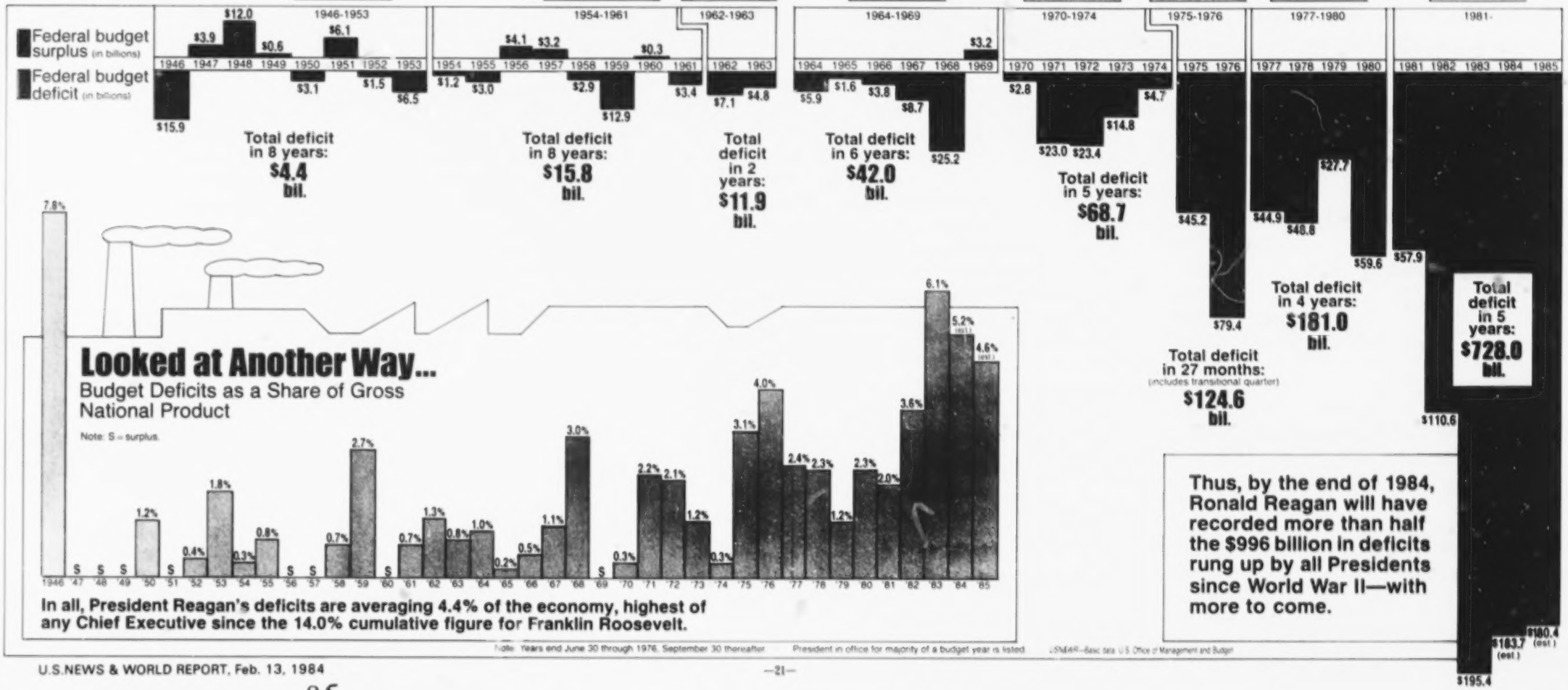
Lyndon Johnson

Richard Nixon

Gerald Ford

Jimmy Carter

Ronald Reagan



Looked at Another Way...

Budget Deficits as a Share of Gross National Product

Note: S = surplus.

In all, President Reagan's deficits are averaging 4.4% of the economy, highest of any Chief Executive since the 14.0% cumulative figure for Franklin Roosevelt.

Thus, by the end of 1984, Ronald Reagan will have recorded more than half the $996 billion in deficits rung up by all Presidents since World War II—with more to come.

Note: Years end June 30 through 1976, September 30 thereafter. President in office for majority of a budget year is listed. USN&WR—Basic data: U.S. Office of Management and Budget

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ADDITIONAL ACTIVITIES

1. Using the graphic titled **An Economy That Speaks in Trillions** (p. 4 of this kit), students might enjoy developing additional comparisons, e.g., how many of the following a trillion dollars would buy:

   • record albums • videocassettes • personal computers • movie tickets • college educations

   Students with artistic inclinations might illustrate student comparisons in pictograms.

2. Using **Do $200 Billion Deficits Really Matter?** (pp. 11-12 of this kit), have students chart pro and con arguments for use in editorials of their own.

3. Have students list all proposals presented in **Cut the Deficit? Lawmakers Have Some Ideas** (pp. 13-14). Students should then develop hypotheses regarding ways each proposal would affect:

   - the needy
   - people with health insurance
   - students
   - women
   - home buyers
   - veterans
   - small businesses
   - federal workers
   - environmentalists
   - law enforcers
   - foreign aid

   Students might then compare their predictions to those in *U.S.News & World Report* (Feb. 13, 1984, pp. 24-25).

4. Students might follow up their reading of **Budget-Limit Bandwagon Picks Up Speed** (pp. 15-17 and 18-19 of this kit) by reading the Pro and Con article on that topic in the Aug. 30, 1982, issue of *U.S.News* (pp. 63-64).

5. Divide the class into eight groups, each assigned to one of the Presidents shown on the chart included in this kit (p. 21). Have students use texts and magazines to:
   - describe campaign promises each made regarding federal budget deficits.
   - identify events in each presidential term that may help explain deficits—e.g., wars and economic growth rates.
   - describe public opinion about the seriousness of budget deficits during each President's term of office.
   - determine the apparent economic philosophy of their assigned President.

6. Have students design graphics to illustrate
   - how government revenues and spending create deficits.
   - how inflation might be fueled by deficits.
   - how private investors might be affected by deficits.
   - how the federal government borrows from private citizens by selling savings bonds, Treasury bills and other U.S. government securities.

7. Have students follow news stories to collect campaign platforms of various presidential and congressional candidates concerning federal deficit issues. Students might compare these platforms with those of candidates in the 1980 election. Next, have students develop the platforms they would use if they were presidential candidates in 1984.

8. Have students brainstorm ways that federal deficits can and cannot be compared with deficits within households and businesses; refer students to *U.S.News & World Report* (Nov. 28, 1983, p. 67).

9. Conflicts in forecasting deficits contribute to confusion over the issue. The Feb. 20, 1984, issue of *U.S.News & World Report* (p. 12) compares White House predictions with those of the Congressional Budget Office.

10. Interested students might research the variety of economic theories about the effects of government deficits; refer students to the Pro and Con interview in *U.S.News* (March 7, 1983, pp. 85-86) as one source.

11. Students interested in changing patterns in defense outlays vs. human-resources expenditures may wish to examine *U.S.News* graphics (Feb. 15, 1982, issue, page 16 and June 13, 1983, issue, pp. 33-37).

12. Have students list pro and con arguments for cuts in defense spending in order to write editorials about the issue; refer students to the Feb. 13, 1984, issue of *U.S.News* (pp. 26-27).

13. Have students predict effects of projected budget deficits on the following:
   - interest rates
   - stocks and bonds
   - prices
   - industry
   - employment levels
   - trade
   - travel
   - regions of the U.S.
   - taxes

   Students might then compare their predictions with those published in *U.S.News* on Feb. 13, 1984 (p. 18), and on July 19, 1982 (p. 72). Students should then follow news stories in their copies of *U.S.News* to determine which predictions were most accurate.

14. Have students watch for reports of news concerning the effects of U.S. deficits on foreign nations (see *U.S.News*, Dec. 12, 1983, and Jan. 30, 1984). Students might then draft speeches that might have been written by leaders of specific nations for presentation to Congress.

15. Have groups develop hypotheses about ways former world leaders might handle current budget deficits. Students should explain their rationales and then compare their hypotheses with the views of the following former leaders (*U.S.News*, Sept. 12, 1983, p. 33): Gerald Ford, Helmut Schmidt, Malcom Fraser and Valéry Giscard d'Estaing.

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A Conversation with Eliot Janeway

Budget Deficit Needs a "Quick Fix—the Quicker the Better"

Eliot Janeway is an economist and investment consultant whose career has taken him into journalism, business and advisory roles for government and a number of industries. He publishes the *Janeway Letter* and is the author of six books, the latest of which is *Prescriptions for Prosperity*.

"We're on notice to avert catastrophe by 1985"

I'm for the quick fix, and the quicker the better. The more of them there are, the bigger the lift you get from any one of them and from all of them together. If you try to cure our astronomic budget deficits by getting into an argument about tax rates, you'll be fighting it out till the end of '85. Then, if time is of the essence, as the lawyers say, you will have lost the race. We're on notice to avert a catastrophe by 1985, and I think it can be done without getting bogged down in an argument over tax rates.

"U.S. slow to cash in as the world's money haven"

One emergency step we can take is to export the deficit. The Treasury could sell to dollar-rich governments abroad long-term, nonmarketable paper that pays no interest until maturity—a zero-coupon bond, as it is called. We also could require foreigners buying property in this country to buy such bonds. The purchase of a $100,000 bond could be made the quid pro quo for every 1 million dollars invested here by a foreigner. Why give free political protection and free commercial access to our markets to all the money seeking sanctuary here?

The U.S. has been slow to cash in on its distinctive attractiveness as the world's money haven. Where else can money go? Japan won't give foreigners the right to buy fixed assets—especially to take title to land. Neither will the Arabs. Foreigners routinely have to put up with the dangers of devaluation, confiscation, exchange freezes, labor troubles. So increasingly they are attracted to the U.S.—just for safety's sake, let alone for return on profit.

"I'm not concerned about foreign ownership"

You have to deal with everybody in this world. After we rebuilt West Germany and Japan, they thanked us in a way I cannot criticize. They said, "Look here, Mr. IBM, Mr. Fortune 500: You want this big market over here, but you're going to have to invest in it to cash in on it—and bring your banks." And that's how our big exporting companies and our big banks became multinationals. It turned out great for everybody.

So why don't we tap the borrowing power and the earning power of our successful industrial competitors and "invite" them to buy into the American industries that have fallen by the wayside? I'm not concerned about foreign ownership, and I don't think the economy cares at all about the nationality of ownership. To paraphrase Kipling, let the foreigners pick up the weary American's burden in financing local developments and paying taxes to local communities. Any foreigner who invests in American plants expects to pay local-government taxes.

Defense: "The core of our fiscal problem"

Defense spending is at the core of our fiscal problem. To persuade Congress to go along with defense programs that mushroom, the White House must go along with nondefense programs that also mushroom, and the two together add up to deficits mushrooming and interest rates mushrooming.

The way to hold the lines is by stabilizing your really expensive long-term defense commitments, the ones that seem innocent in the first three years and that eat you out of house and home in the last four. It's only human for someone sitting in the Treasury or the Defense Department to say: "I'll be out of here in a year, so we'll go along with this. It will cost only 53 million dollars in the first year, and it won't start costing in the tens of billions until the seventh year. That will be a problem for my successor's successor."

No President is going to bring the defense budget under control until he stabilizes the advanced-technology sector. And until he stabilizes the defense budget, he won't have any bargaining power against the sources of political pressure on the nondefense budget.

In my book *Prescriptions for Prosperity*, I scrupulously avoid criticism of the purposes of defense spending. It's up to the Commander in Chief to explain to the country what its security demands, and it's up to Congress to trade out a budget. People can't understand how they can pay so much in taxes without our having a budget and how we can spend megabucks on defense and still seem to be unprepared.

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